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UNITED STATES GENERAL ACCOUNTING OFFICE

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TESTIMONY OF  
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OF THE UNITED STATES  
BEFORE THE  
TASK FORCE ON THE BUDGET PROCESS  
COMMITTEE ON RULES  
U.S. HOUSE OF REPRESENTATIVES  
ON  
REFORM OF THE FEDERAL BUDGET PROCESS



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Mr. Chairman and Members of the Task Force:

I am pleased to be here today to discuss with you our views on the importance of reforming the federal budget process. It is clear that our nation is facing significant economic and fiscal issues, and that government decisionmakers will have to make many hard choices over the coming years on budget levels and allocations. To focus attention on the major issues under these demanding circumstances, we believe it is imperative that our government simplify, streamline, and strengthen its budgetary and financial management systems.

At the outset, I would like to compliment you and the other members of the Task Force for the time, interest, and effort you have given to the subject of reforming the congressional budget

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process. The two proposals for reform being considered by the Task Force provide an excellent way of framing the alternatives. Each of these two proposals--the single budget resolution approach and the comprehensive budget bill approach--would make numerous changes in the rules and practices followed by the Congress in considering and acting on budget resolutions and legislation. We support the view that, if possible, simplified procedures should be implemented this year and used in consideration of the FY 1985 budget.

We have reviewed the two proposals and will be providing detailed suggestions to your staff. At this point, however, I would like to note that we are agreeable to the provision, appearing in both proposals, calling on our office to make a study of indirect financing mechanisms.

#### The Significance of the Federal Budget

The Task Force's responsibilities have centered on examining the congressional responsibilities in the budget process. But, while focusing on the details of the congressional budget process, such as changes in the rules, timetables, definitions, and procedures of the House and the Senate, we should not lose sight of the broader implications of congressional budget reform. Congress' budget actions are unavoidably intertwined with those of the executive branch, and all of the budget actions have significant effects throughout the government and the nation.

The federal budget, as enacted in tax, appropriation and other laws, reflects our government's priorities and overall

fiscal and economic policies for the coming year. The budget is the sum of the many hard choices that have to be made among competing goals, programs, and interests in our nation--choices about the kinds and levels of services we expect from government and the taxes that will finance such services. These decisions affect the behavior of both the government and the private sector. As the government's basic financial plan, the budget is instrumental in guiding, managing, overseeing, and making accountable the operations of government agencies and programs. As the government's chief vehicle for allocating resources, the budget significantly influences the standard of living of individual citizens as well as much private economic behavior, ranging from major corporate investment decisions to the economic decisions of individual families.

#### Why Congressional Budget Reform Is Needed

Because of the budget's significance to the nation, the economy, and government operations, how our government goes about making budget decisions is itself significant. Given our budgetary and fiscal situation in the past few years, it is no surprise that the budget process itself has become a topic of considerable interest and debate. Changing how we go about making budget decisions can affect the nature of those decisions, as well as the balance of power between and within the Congress and the executive branch.

The Congressional Budget and Impoundment Control Act of 1974 governs both how Congress acts on the budget, and some major interrelationships between the Congress and the executive branch.

The Act integrates various policymaking processes in the Congress--including the budget, tax, authorization and appropriations processes--through its timetable, reporting requirements, rules, procedures, and definitions. Together these spell out how the Congress is supposed to consider and act upon the budget, both as a whole and in its separate parts (e.g., individual appropriations bills). It also helps to govern many of the budgetary relations between the Congress and the executive branch. There is an interdependence between the two branches. Congress must have the President's budget and legislative proposals and their supporting information and analysis to do its work, and the executive must have the legal authority and direction from the Congress to carry on its execution of public policy.

In recent years the budget process has not worked well. Some of the common complaints of officials who act on the budget are that there is unnecessary duplication of effort and decisions, too much detail, too much time consumed, poor information and usually optimistic estimates, missed deadlines, too many votes, and failure to reach consensus.

When the process is not working well, not just the Congress suffers. The repercussions are magnified throughout the executive branch, and the effects often spread to state and local government and the private sector. For example, when Congress fails to complete budgetary legislation on time it must use temporary continuing resolutions to fund agency operations. This hampers agency planning and management efforts and requires the

agencies to reapportion, reallocate, and readminister their funds. Threatened or actual funding or borrowing gaps can cause serious and costly disruptions to operations and programs, adversely effect the morale of agency employees, and pose a threat to recipients of funds who depend on these funds for their livelihood. Late budget actions and revisions also contribute to uncertainty and disruption for contractors, grantees, state and local governments, other recipients, and the financial markets. Delayed action on tax legislation can complicate investment planning by both individuals and corporations.

Protracted debate over budget matters absorbs time and effort Members and executive branch officials need to devote to other essential responsibilities, such as planning, managing, and overseeing government agencies, policies, and programs. In addition, of course, public perception of a budget process working poorly contributes to the erosion of public confidence in the government and its leaders.

#### Nature of the budget process difficulties

Many of the recent difficulties with the budget process are not entirely the fault of the process itself. Political consensus has been difficult to forge on the hard budget choices we face. No process can force these decisions, or make them easy. But a process should--and our current process does--force a recognition that there are important national problems to be solved in the fiscal arena. In this respect, the budget process has worked very well--the process is effectively bringing to the nation the message that something is awry in our fiscal

situation--notwithstanding the fact that the gravity of our fiscal situation is not fully reflected in the budget process because it does not include off-budget items and some unfunded liabilities.

Notwithstanding the limitations of any process in forcing hard choices to be made, improvements seem both possible and desirable to simplify and streamline the process, to ease the workload burdens, and to make possible more timely action by the Congress. In considering specific options to accomplish these objectives, however, it is important to recognize that the congressional budget process is an integral part of the federal financial management system, in which Congress and the executive branch find themselves in a situation of mutual dependence.

The difficulties experienced by the Congress in its budget process are the most visible sign of some basic, underlying problems in the federal budget process and in the entire federal financial management system. These systemic problems include the lack of good financial information and reporting on the costs and performance of government operations, organizations, projects, and programs. Our current financial management systems are outmoded, and they leave much to be desired when it comes to the integrity, comparability, completeness, and timeliness of information on the operations, financial condition, and performance of the government. The lack of such information limits government decisionmaking at all levels, including the Congress. In addition, our current financial management system is costly, inefficient, and does not take full advantage of modern computer and telecommunications technology.

Given these underlying system weaknesses, current efforts to promote efficiency and effectiveness and to control costs, fraud, waste, and abuse are limited and can be counter-productive. Thus, for example, across-the-board percentage cuts in object classes or line items, and detailed controls and reporting requirements on agency managers have created confusion, inefficiencies, and have discouraged creative and flexible management responses to the financial and other problems faced by agencies. The National Academy of Public Administration recently issued a report of this problem of the "overregulation" of government managers noting that: "From the operational perspective of the program managers, the Federal budget is unrealistic, inflexible, or simply unnecessarily burdensome."

#### What Needs To Be Done

Clearly, Congress needs to do something about its piece of the problem--it needs to simplify and streamline its budget process to ease the workload burden and to encourage more timely action on budget matters. The two proposals being considered by your Task Force are good steps in this direction. However, to do this effectively will also require reform of the executive branch's budget process, and reform of the entire financial management system of the federal government. This is true because of the interdependence of the Congress and the executive branch in this area. Congressional budget process reforms would be limited in their effectiveness without complementary reforms in the financial management system and the executive budget process, in our view. If Congress doesn't ensure that the executive

develops and reports better budget and financial information to it for use in its budget process, timely and well-considered congressional action on the budget will be difficult at best.

Consequently, we also believe it is time to begin building a modern financial management structure for the federal government. This structure should have the following key elements:

1-- Strengthened Accounting, Auditing and Reporting:

Effective financial management must start with complete, reliable, consistent and timely information. Government financial systems must be designed to produce that information. Routine and special reports must be timely, useful, and readily understandable, and the reliability of the information must be assured through effective auditing procedures.

2-- Improved Planning and Programming:

Many of the most pressing national issues cannot be adequately considered using a narrow, short-term focus. A modern financial management system should include a structured process for considering those issues, one which focuses attention on major issues, identifies alternative courses of action and analyzes their probable future consequences.

3-- Streamlined Budget Process:

The federal budget process must be made more manageable if it is to be effective. Reform is needed in both Congress and the executive branch. This effort should

concentrate on eliminating unnecessary repetition, detail, and obstacles to action. The system and its operating procedures must be designed so that program managers, policy officials and Members of Congress can focus on the difficult budget choices that must be made. Also, a streamlined budget process should deal with a comprehensive, unified budget. In this regard, we are very concerned that last year's social security reform legislation would place social security trust funds off-budget. We think this provision should be repealed and the existing off-budget entities should be returned to the budget.

4-- Systematic Measurement of Performance:

Effective management of resources requires examining the results of government activities as well as their costs. The financial management system must be designed to provide consistent data about both performance and costs as a basis for assessing the efficiency and efficacy of operations.

Closing

Reform is needed and we believe the need is becoming increasingly urgent. However, if reforms are limited to the congressional phase of the process, we are concerned that many of our budget process problems will remain and you will be disappointed in the results. This could mean the continued erosion of public trust in government and its leaders, and disruptions and other ill effects on government programs and services and the

private sector. Because of the openness of the Congress as an institution and the visibility of its decision processes, public dissatisfaction tends to focus on the Congress. Thus, the continuation of the problems could pose a threat to the role of Congress in our political system as pressure develops for more drastic solutions.

Therefore, we share your concern about the need for early reform of congressional procedures, beginning this year, if possible, and will be pleased to assist you in that effort in any way we can. At the same time, we urge that you and your colleagues see this reform as one piece of a much broader and longer-term strategy for building an effective structure for managing the federal government's financial affairs.